

Unrelated trade or business; business league; trade show. An exempt business league that receives reasonable compensation for sponsoring and endorsing an international commercial trade show, which is not a sales facility and at which the league performs educational and supporting services, is not engaged in unrelated trade or business under section 513 of the Code.

Advice has been requested whether, under the circumstances described below, endorsement and educational activities of an organization exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 in connection with a trade show constitute unrelated trade or business within the meaning of section 513.

The organization was formed for the purpose of encouraging the creation and adoption of trends and modern methods of professional and business practice for a profession. The organization conducts educational programs for persons in the profession to keep them informed of new trends and techniques. It also conducts a public relations program designed to create a favorable impression of the profession.

The organization has entered into an agreement with the producers of an international commercial trade show. Under the agreement, the organization receives reasonable compensation for sponsoring and lending its name and good will to the show as well as for performing certain supporting services. This trade show includes exhibitions of industry products and fashion trends, educational clinics, and competitions serving to stimulate interest in the trade show and the profession. This trade show is not a sales facility. The organization's involvement in the trade show is limited to permitting the producer to use its name in connection with the show, promoting attendance at the show, planning educational exhibits and demonstrations, and providing lectures for the exhibits and demonstrations.

The term 'unrelated trade or business' is defined in section 513 of the Code as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its exempt functions.

Section 513 of the Code and section 1.513-1(b) of the Income Tax Regulations provide that trade or business includes any activity which is carried on for the production of income from the sale of goods or the performance of services.

Section 1.513-1(d)(4)(iv) of the regulations provides that an organization in the performance of exempt functions may generate good will or other intangibles which are capable of being exploited in commercial endeavors. Where an organization exploits

such an intangible in commercial activities, the mere fact that the resultant income depends in part upon an exempt function does not make it gross income from related trade or business, unless the commercial activities themselves contribute importantly to the accomplishment of an exempt purpose.

The conduct of a trade show to promote and stimulate interest in and demand for the products and services of an industry in general is an activity substantially related to the accomplishment of purposes for which a business league is exempt under section 501(c)(6) of the Code. Rev. Rul. 67-219, 1967-2 C.B. 210. Imparting to members general information about changing business conditions and instructing members on subjects concerning common professional interests furthers the purposes of exempt business leagues. Rev. Rul. 75-516, 1975-2 C.B. 221.

By planning and staffing educational portions of the show, the business league contributes importantly to the accomplishment of its own exempt purposes. The show as a whole stimulates interest in and demand for services of the professional while educating members on matters of professional interest. The business league's endorsement of the show attracts to the event more members of the profession and the public, enhancing the show's educational and demand-creating impact. Thus, this activity is also substantially related to the accomplishment of the business league's exempt purposes.

Accordingly, the endorsement and educational activities do not constitute unrelated trade or business under section 513 of the Code.